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T - The Under Secretary November 13, 1952

L - H. F. Linder

Foreign Oil Policy.

You will recall that Mr. Duce reported to us that the Secretary of the Interior intended to take up with the President action in respect of the oil anti-trust suit. So far as we know, Mr. Chapman has not yet done this. Attached is a memorandum for the President, together with an outline of the study which has been going forward in the Department.

Recommendation:

That you call Mr. Chapman and ask whether he has yet talked to the President about this. If he replies in the negative, I suggest that you present the attached memorandum to the President who will need to make the decision, either independently or after Cabinet consultation, as to whether he wishes to discuss it with General Eisenhower.

Attachment:

Memorandum for the President.

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MEMORANDUM FOR THE PRESIDENT

Subject: Foreign Oil Policy

Petroleum is of vital importance in our relations to underdeveloped countries such as Iran, Saudi Arabia, Iraq and Venezuela. It is also a major issue in our relations with the United Kingdom, because of its importance to the earning capacity of the sterling area, and because British oil companies are closely associated with our own in oil development. Also, a steady flow of petroleum supplies is essential to all NATO countries, Japan and friendly neutrals if their preparedness programs are to succeed. The legal action of the United States Government against the large international oil companies comes at a time when nationalist fever in Middle Eastern countries is running high. The major oil companies stand accused by their Government of practices contrary to American law. While this may be largely unexplained to the American mind, it cannot but have an adverse effect on the ability of the companies to do business effectively with governments of countries in which concessions have been or may be negotiated.

Normally an anti-trust case is a domestic matter, and the American public waits until its long litigation is finished. In petroleum, however, the major violations are international. Foreign oil development is impossible except for large companies. The practices of these companies being revealed by current investigations do appear to be contrary to our laws and to our general concept of the economic benefits of a competitive market in the petroleum industry throughout the free world. If these practices are being pursued they should of course be corrected.

The correction of these practices could perhaps be achieved, however, by some means other than a long and complicated anti-trust action, and the Department of State is therefore giving very careful

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careful thought to petroleum policy, assessing our national objectives and the prospects for continuing development in the industry. In this context we are examining urgently the impact of the anti-trust action, the relevant security objectives of the United States and our allies, and the best means of promoting the sound economic operation of the industry. We have tentatively developed the opinion that some approach other than the anti-trust competitive concept may be needed, and may be more useful in achieving our international economic and security objectives.

Although we have not examined the matter fully as yet, we are inclined to think that a Presidential Commission should be appointed to review the entire problem and to develop a sound and practical approach to our international petroleum policy. We are not unmindful that there might be obstacles to such a new approach, but we are convinced that the present situation will lead only to a multiplication of our international problems.

We want you to know that we are studying this question intensively. Since the international political ramifications of the petroleum situation are so pressing, you may wish to discuss the matter with the Secretaries of Defense and Interior, as well as the Attorney General, all of whom have a substantial interest in the problem. For your further information and as a basis for discussion, the attached memorandum which outlines our study may be helpful.

Enclosure:

Memorandum on Foreign Petroleum Policy.

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V. Conclusions and Recommendations

(A tentative preliminary conclusion has been reached that a high-level commission should examine the problem and recommend oil policies. This commission could be composed, for example, of the Secretaries of State, Defense, Interior and Commerce. If the commission is to be within the Government, the National Security Council would presumably play an important part in the consideration. Alternatively, the commission might comprise outstanding persons from private business, labor, and the professions, presumably not including those connected with the petroleum industry. In either case, such a commission might be comparable to the one constituted in the 1920's for the domestic oil industry.)

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S/P. Mr. Ferguson

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MEMORANDUM

October 24, 1952

TO: E - Mr. Linder
NEA - Mr. Lakeus
OMT - Mr. Dixon
NE - Mr. Hart
S/P - Mr. Ferguson ✓

FROM: NEP - Mr. Armstrong

SUBJECT: Memorandum on Foreign Petroleum Policy

Attached is a copy of the memorandum on foreign petroleum policy which was discussed at a meeting on October 22. The memorandum has been revised in accordance with the suggestions and discussion at that meeting.

Attachment:

As above

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## MEMORANDUM ON FOREIGN PETROLEUM POLICY

United States objectives in foreign petroleum policy may be stated as follows:

1. Continued expansion and development of petroleum production and distribution in all countries of the free world on sound economic grounds, under conditions of low costs, fair prices, technical progress, effective conservation, and broadest distribution of the benefits derived from petroleum.

2. Development of a climate favorable to private investment on the assumption that private funds should be used rather than government funds.

3. Political stability and sound economic and social development in underdeveloped countries where petroleum is located, and encouragement of cooperation between these countries and the rest of the world outside the Soviet orbit.

4. Assurance that free countries lacking petroleum resources have equal access to essential supplies on competitive and nondiscriminatory terms.

5. Maintenance of policies to promote the security objectives of the United States and its allies in foreign petroleum.



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5. Assurance that the power of private organizations derived from their ownership of key resources and facilities shall in no way be used to jeopardize the achievement of the foregoing objectives.

7. Development of a realization of free world community responsibility for the petroleum industry, on the part of all governments, peoples, and private organizations in the free world.

8. Reduction of existing suspicions and ill-feeling between all interested elements in the world petroleum situation.

The current situation in petroleum contains threats to the development of these objectives. All countries are vulnerable in petroleum in one way or another and all are vitally dependent upon it for economic welfare and national security. In the first place, there are countries like France, Italy, Belgium, Germany, and Japan which are highly industrialized, have no substantial petroleum supplies of their own, and are important allies of the United States. Their economies and defense require petroleum from outside sources, and they might be the first to suffer should any diminution in the supply occur.

A second group of countries includes the United States and the United Kingdom. These are important consumers of petroleum

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petroleum in their own territories and important producers either at home or in offshore areas. A reduction in the supply of petroleum from areas of origin would in the case of the United Kingdom immediately affect industrial activity and security. It would also be very serious for the United States, as it would curtail our ability to supply other countries without adverse effects on our own economy.

The third group of countries (Venezuela, Saudi Arabia, Iraq, Indonesia, Kuwait, and Iran) are insignificant consumers but tremendous producers for the export market. They lack capital, know-how, and organization to develop their resources and consequently depend upon American and British petroleum companies to exploit and sell their oil. These countries, like other underdeveloped areas, are highly susceptible to nationalist fever, which can come in a most violent form. They already have large earnings from petroleum, but they may at any time try to maximize their receipts without regard for the consequences.

The only organizations with the money, know-how, and initiative to take oil out of the ground in underdeveloped areas, process it, and distribute it to consumers are huge corporations, mostly privately owned, of high competence and ingenuity. They must be large because the business requires

requires heavy investments in equipment for exploration, exploitation, refining, transportation, and distribution. The risks are great, because of the possibility of fruitless exploration, because the investment is in less developed foreign areas, and because they exploit an irreplaceable resource. Much public resentment against their size, profitability, and alleged habits has developed in many countries. Consumers look at their prices and profits and consider them too high. Backward countries possessing oil may wish more of the profits, and company practices have aroused concern where competitive ideals are a matter of law. For a variety of reasons the companies have followed parallel, similar, or identical policies in pricing, transportation, distribution, and acquiring concessions. In some instances some of these actions have been the subject of agreements between companies.

The recent action of the United States Government in moving against the oil companies under the anti-trust laws, while perhaps entirely justified, comes at a time when rampant nationalism in Iran has already jeopardized the position of one major company and thrown open the whole question of concessional relationships.

If this legal action were entirely a domestic matter, it could be assumed that the Government and the people of the

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the United States should wait for it to unfold in its entirety, and suspend judgment until the litigation was finished. It is, however, not solely a domestic matter, and it is an error to assume that peoples and governments in other parts of the world will be so rational during the long legal process as to suspend judgment and see what happens. The companies which have vigorously negotiated concessions in the Middle East and Latin America now stand indicted as possible criminals by their own government. This may evoke ill-considered action on the part of Middle Eastern or Latin American governments and peoples, and neither the companies nor the United States Government will be in a good bargaining position to meet it.

To point this out is not to deny that the companies have probably engaged in operations and practices which should be condemned as unjustified. The practices being revealed by current investigations would appear to interfere with our basic economic objective of encouraging sound expansion of the petroleum industry throughout the free world. If they are still being pursued, they should be corrected.

It is high time to give serious and careful thought to petroleum policy, assessing our national objectives, the factual

factual situation in the petroleum industry, and the prospects for the industry's continuing development. In this context we should examine the impact of the anti-trust action, without any attempt to judge its validity. We should also consider the relevant security objectives of the United States and its allies, and determine how they may best be achieved. We should also consider whether sound economic operation of the industry (as set forth in objective 1) is best promoted by applying the anti-trust competitive concept, or by some other means. If we conclude that some other approach might be more constructive in the light of existing institutional and international arrangements, then we should propose the measures which would put it into effect.

This study should be done promptly, using materials currently available in the Government. A possible outline follows:

I. Background

A. World petroleum reserves, production, and distribution

B. Structure of world petroleum industry

C. History of international petroleum problems and action taken

II.

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II. Objectives of United States Foreign Petroleum Policy

A. Determination and analysis of objectives

B. Extent to which Government and company policies and actions have fostered objectives

III. Problems Affecting United States Objectives

A. Structure and practices of petroleum companies

B. Nature of foreign oil concessions

C. Division of petroleum profits between companies and producing countries

D. Rise of nationalism in foreign countries possessing oil reserves

E. Balance-of-payments problems

1. Sterling area
2. Other soft currency areas

F. Determination of petroleum production levels in various areas

G. Influences to consumption, arising from either Government or private actions

H. Extent of United States market for foreign oil

I. Foreign impact of recent United States actions in petroleum

1. FTC report
2. Anti-trust suit
3. TBA suit

IV. Possible Actions

A. Reforms by companies

B. United States Government action

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1. Anti-trust laws
2. Supervision of concessional arrangements
3. Projection of domestic institutions (e.g., interstate compact) into foreign field
4. Should regulatory system replace competitive concepts?
5. Limitations on unilateral United States actions
6. Legislative problems

C. Intergovernmental arrangements

1. Conservation
2. Production levels
3. Business practices and policies
4. Regulation in international public interest
5. Foreign reaction to possible new United States approach
6. Possible mechanisms

D. Effect of possible remedies on United States domestic oil situation

V. Conclusions and Recommendations

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